

UNITED STATES OF AMERICA

DEPARTMENT OF THE INTERIOR

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HEARINGS

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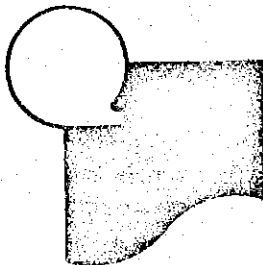
NATIONAL PETROLEUM COUNCIL

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UNITED STATES DEPARTMENT OF THE INTERIOR
MEETING OF THE
NATIONAL PETROLEUM COUNCIL

AUDITORIUM
U. S. DEPARTMENT OF THE INTERIOR BUILDING
18TH AND C STREETS, N. W.
WASHINGTON, D. C.

TUESDAY, MARCH 18, 1975
9:00 O'CLOCK A.M.

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1 MEMBERS PRESENT:

2 JOHN E. SWEARINGEN, Chairman
3 HONORABLE ROGERS C. B. MORTON, Cochairman
4 COLLIS P. CHANDLER, JR., Vice Chairman
5 KENNETH E. BELIEU, Executive Director
6 HONORABLE JACK W. CARLSON
7 JACK H. ABERNATHY
8 L. N. APPLGATE
9 FERRY R. BASS
10 CARROL M. BENNETT
11 HAROLD E. BERG
12 W. T. BLACKBURN
13 HOWARD W. BLAUVELT
14 Z. D. BONNER
15 W. J. BOWEN
16 H. BRIDGES
17 GEORGE H. BRUCE
18 CHARLES F. BULOTTI, JR.
19 BOB BURCH
20 ROY BUTLER
21 F. A. CALVERT, JR.
22 EDWARD E. CARLSON
23 JOHN A. CARVER, JR.
24 KARNEY R. COCHRAN
25 EDWIN L. COX
W. LEROY CULBERTSON
CORTLANDT S. DIETLER
JOHN R. DOLLINGER
HOLLIS M. DOLE
J. C. DONNELL, II
DAVID F. DORN
FRANK E. FITZSIMMONS
JOHN S. FOSTER, JR.
STARK FOX
R. I. GALLAND
C. J. GAUTHIER
ROBERT GILKESON
KENT GILL
RICHARD J. GONZALEZ
JAKE L. HAMON
F. DONALD HART
FRED L. HARTLEY
KENNETH E. HILL
MARY HUDSON
W. G. HULBERT, JR.
FRANK N. IKARD
MINOR S. JAMESON, JR.
J. K. JAMIESON

MEMBERS PRESENT (Continued):

GEORGE W. JANDACEK
JOHN A. KANEB
JOHN M. KELLY
WILLIAM F. KENNY, JR.
ALFRED A. KILTZ
THOMAS L. KIMBALL
ARTHUR C. KREUTZER
WILLIAM J. KUNFOSS
THOMAS E. LOVE
T. P. McADAMS, JR.
HAROLD M. McCLURE, JR.
W. C. MCCORD
D. A. McGEE
JACK V. McGLATHLIN
JOHN R. McMILLAN
PAUL W. MacAVOY
CARY M. MAGUIRE
LEON V. MANNY, JR.
W. F. MARTIN
C. JOHN MILLER
LAWRENCE MILLS
ROBERT S. MOEHLMAN
KENNETH E. MONTAGUE
JEFF MONTGOMERY, JR.
JESSE L. MOORE
ROBERT MOSBACHER
JOHN F. O'CONNELL
R. L. O'SHIELDS
JOHN G. PHILLIPS
T. B. PICKENS, JR.
HARVEY A. PROCTOR
WALTER E. ROGERS
JAMES W. SCANLAN
WILTON E. SCOTT
ROBERT V. SELLERS
R. E. SEYMOUR
C. P. SIESS, JR.
J. H. SIMMONS, JR.
CHARLES E. SPAHR
ELVIS J. STAHR
NETUM A. STEED
THOMAS F. STROCK
J. B. SUNDERLAND
WAYNE E. SWEARINGEN
W. H. THOMPSON, JR.
H. A. TRUE, JR.
G. L. JERRY VINSON

1 MEMBERS PRESENT (Continued):

2 STEPHEN A. WAKEFIELD
3 JOHN F. WARREN
4 ROBERT V. WEST, JR.
5 JOHN G. WINGER
6 M. A. WRIGHT
7 ROBERT E. YANCEY

8 ALSO PRESENT:

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HONORABLE FRANK G. ZARB
ROBERT C. MCCAY

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P R O C E E D I N G S

CHAIRMAN SWEARINGEN: Ladies and gentlemen will you please take your seats? Will the meeting please come to order.

My name is John Swearingen. I am Chairman of the Council. I will act as Chairman of the meeting this morning.

First, let me welcome you to the 72nd meeting of the National Petroleum Council. Today marks the anniversary of the lifting of the 1973-1974 Arab oil embargo, an event which dramatically focused attention on our deteriorating energy position and helped to create the sense of urgency now being accorded in the formulation of a national energy policy.

We will be discussing various aspects of the nation's energy situation later this morning.

If there is no objection, I will waive the calling of the roll. The doorcheck will serve as the official attendance roster.

If any of you have not already done so, please check in at the back of the auditorium before you leave.

Before we proceed with the items on the agenda, I would like to introduce the people at the head table.

On your far left is Mr. Collis Chandler, who is the Vice Chairman of the Council. Collis, will you please stand?

VICE CHAIRMAN CHANDLER: Thank you, Mr. Chairman.

CHAIRMAN SWEARINGEN: Next is Mr. Jack Carlson, the Assistant Secretary of the Interior; Honorable Rogers C. B. Morton,

1 the Secretary of the Interior; Mr. Frank Zarb, the Administrator
2 of the Federal Energy Administration; and Mr. Ken Belieu,
3 Executive Director of the National Petroleum Council.

4 I understand that Mr. Zarb is scheduled to go to the
5 Hill this morning to present some testimony, so we will depart
6 from the agenda in your hands.

7 We will ask Mr. Zarb to make his remarks to the Council
8 and permit him to proceed to the Hill for his other appointments
9 this morning.

10 Frank Zarb?

11 STATEMENT OF HONORABLE FRANK G. ZARB, ADMINISTRATOR
12 FEDERAL ENERGY ADMINISTRATION

13 MR. ZARB: Thank you, Mr. Chairman.

14 I do have to be on the Hill at 9:30 to begin testimony
15 on gas deregulation. I think you would agree with me that it
16 might be in all of our best interests if I got there.

17 Therefore, [I will make my comments very brief and then
18 perhaps, spend the time that we do have together in answering
19 specific things that may be on your mind or listening to what
20 may be on your mind.

21 We were at Notre Dame yesterday and just away from the
22 City for one day. I came back this morning and found that we
23 had another energy program from the Congress.

24 I had been prepared to analyze with you the majorities
25 approach to the energy problem. I had three of the Congressional

1 plans lined up alongside of our own.

2 However, since there was a new one introduced as of
3 yesterday, to some extent I have put aside my prepared remarks.

4 I would say that in net substance we are about
5 60 percent in agreement with the Ways and Means Committee. The
6 remaining 40 percent, however, are the areas of vast philosophi-
7 cal and programmatic difference. Therefore, there is an awful
8 lot of work to be done.

9 The Ways and Means, the Democratic majority of Ways
10 and Means, has now introduced to the Committee a bill which
11 outlines where they stand at the moment.

12 As you know, it has a sizable gasoline tax that
13 increases to about 37 cents over a four or five year period.

14 It talks about a quota system, although it appears
15 in my first reading this morning that the quota system is one
16 that would be more of a standby nature than one that would be
17 immediately applicable or, at least, an authority at the present.

18 It touches on a national purchasing authority, but
19 again, as I read it this morning, it appears to put the national
20 purchasing authority only into action with respect to the acqui-
21 sition of national strategic reserves.

22 All of this is subject to my quick interpretation-- on
23 the basis of the three weeks of discussions that I have been
24 having with the Chairman.

25 Therefore, some of it may be subject to change.

1 In the rest of the bill, there are detail differences,
2 but let me outline where we seem to stay apart.

3 All of the Congressional plans have had varying
4 degrees of goals. The latest iteration, or I should say the one
5 before the latest iteration, has as a goal a million barrels of
6 imported oil reduction from what it would be otherwise by the
7 end of 1977.

8 We are about 100 percent apart on that question. It
9 is more than just a question of barrels of oil. It is more a
10 question of intent and overall objective, because, in our view,
11 we will be expanding our imports during the next three years,
12 particularly in the recovering economy.

13 The fact that the Congress and we are apart on that
14 point is, I think, very significant, because our position has
15 been to limit, and limit now, expanding imports so they don't
16 increase with the recovering economy. They have not seen fit
17 to subscribe to that notion.

18 The idea of a heavy gasoline tax has been one that
19 we have been opposed to right along for a number of reasons.
20 First, it seems to visit all of the conservation burden on one
21 product. It ignores the rest of the crude oil. It puts signi-
22 ficant penalties ^{on} to various segments of the industry as well as
23 various areas of the country.

24 Therefore, we remain fairly far apart on that issue,
25 although I must say that we are having discussions that are,

1 perhaps, bringing us closer together, and perhaps closer than
2 might appear, on the bill that was introduced to the Committee
3 yesterday.

4 The other two major areas of difference relate to this
5 notion of a national purchasing agent. We have been, in all
6 good faith, trying to analyze the value of a national purchasing
7 authority from the standpoint of the United States energy
8 program.

9 We have some considerable disagreement with respect
10 to its effectiveness. There are those who believe that the
11 national purchasing authority would be the device that would
12 insure the solidification of the cartel and, from an international
13 and a political standpoint, would be absolutely the wrong thing
14 to do.

15 We have some other questions with respect to its
16 functioning and its viability and with respect to doing a job
17 that heretofore has been left up to the individual free enter-
18 prise system.

19 The quota and allocation program seems to be no longer
20 a problem. The discussions we have had with the Chairman, so
21 far, have led us, now, to take a position where he is in agree-
22 ment, that we should not use a quota system to create a shortage
23 and an allocation system to manage that shortage.

24 While we were out of town yesterday, I noticed that
25 the Chairman, on T. V., did a very good job in outlining why

1 either rationing or quota controls would not do the job.

2 All in all, I would say that we have made fairly good
3 progress.

4 The Ways and Means Majority approach seems to recognize
5 that there is a free market and that that free market does work.
6 That is probably the best vehicle to use to get done whatever
7 we will get done here.

8 It has stepped away from some of the more mandatory
9 allocations or quota approaches which were so popular only three
10 or four weeks ago.

11 It does recognize that we do, indeed, have a problem
12 with respect to the conservation and we need to do something
13 about that.

14 It also recognizes that we need to do what we can to
15 generate supply.

16 One area that I did not discuss, that I know you have
17 some passing interest in, is decontrol. We have had discussions
18 with Ways and Means, but, as you know, they do not have authority
19 in that area.

20 However, they have left a space in their bill, headed
21 "Decontrol of Old Oil" and the caption says, "To be filled in by
22 another committee."

23 We've been working with that other committee and we
24 are now at least at the point where they are in agreement that
25 we ought to have, in this bill, old oil decontrol. The question

1 is one of timing.

2 It is no secret, but the ^{lead time in} bid in gas is six months
3 to five years. So, we have a considerable amount of work to
4 do in that area, but I think we can all be heartened that this
5 eight or ten weeks of work have at least brought us to the point
6 where
that we are.

7 That brings me to the final remark which I shall make
8 here today. It was just about eight or ten weeks ago that the
9 President laid before the country a rather comprehensive program.

10 It has been battered about and kicked about by
11 general interests and special interests and just those interested
12 in doing it.

13 It has held together awfully well. Substantively,
14 there is still not another program that has been put forward
15 that has come close to it.

16 It is a logical thing for the Congress to massage
17 the President's program, to tear it apart, and to introduce
18 their own notions.

19 However, I still believe that the foundations of
20 what the President put forward are the principles of the right
21 program for this country.

22 It is my view that the more we do with Congress in
23 trying to mold the program in the coming weeks, the closer we
24 are going to get to the President's program.

25 I think we can all feel free and pretty good about the

1 fact that in the eight to ten weeks that we have been talking
2 with Congress and going through this exercise, that we really
3 have made vast progress.

4 *Also* Allen Greenspan and I took a long walk on the campus
5 of Notre Dame yesterday. We kind-of reflected as to how far
6 things had come from the time the President told us to go up
7 to Camp David and don't come back until we had something to
8 show him.

9 [We are having a good, healthy American debate, but
10 for once, at least for the moment, it appears as though the
11 healthy debate is going to result in a national action and the
12 kind of national action that, perhaps, we can all agree is the
13 right approach and will have the right results.]

14 I would like to take your questions now.

15 *all can understand* Q. CHAIRMAN SWEARINGEN: Mr. Zarb, if I may just ask one
16 question, I think there is a great deal of confusion about the
17 goals that have been set for the energy conservation program
18 and a good deal of concern about the necessity for prompt action
19 to curtail imports.

20 Would you please comment on this, *with* as to your views as
21 to why it is urgent that we undertake these conservation matters
22 promptly?

23 MR. ZARB: Well, our goals have never been secret. We
24 have outlined what we felt were both achievable and necessary
25 goals.

decrease

1 The President put forth a million barrels a day, by
2 the end of 1975, taking it down from a point at which we would be
3 at nothing.

4 The same formula applies with respect to the two
5 million barrels a day ^{decrease} by the end of 1977.

6 The reasons are fairly simple ~~kinds of reasons~~. We
7 believe that we would have an expanded import base of about
8 two million barrels by the end of 1977 with all things consi-
9 dered, assuming the recovery of the economy, assuming that
10 Canada went ahead with its plans to reduce its exports to this
11 country, and assuming that we were not able to bring on the
12 line any more domestic production than we have been able to in
13 recent years.

14 Therefore, that three year period became a rather
15 sensitive period.

16 Well then, you might say, "So what?" If we have
17 another million barrels or two million barrels from the mid-East
18 with the kind of import base we have now, so what?

19 Well, it has been my view at least, that (a) we had
20 to start the process to limit vulnerability and (b), if we were
21 expanding our imports and the mid-East situation eroded any
22 further, we would have ^{the} a prospect of an embargo.

23 If you think we have an economic problem right now,
24 consider what would happen if we were threatened with an embargo
25 right now, today, for an extended period of time.

1 What would happen to the economy? Then, project that
2 further into 1977 and, with an expanded import base, consider
3 what that could do to our economy.

4 However, let's assume that in the ecumenical spirit
5 of internationalism, Henry ^[Kissinger] is successful and that does not appear
6 to be a problem.

7 The next question is, at what point do you become a
8 price hostage? We have already learned a few things about being
9 a price hostage and that does not seem to be changing.

10 It certainly does not seem to be changing based upon
11 the reports that we have had.

12 In view of those, the cartel watchers continually
13 tell me that the cartel is breaking apart or getting soft on
14 the margin. I have not seen it show up on their price lists
15 to selected clientele.

16 Although I have seen the discount figures which now
17 some are interpreting as being a weakness of the cartel, I
18 just don't believe it. I haven't seen it.

19 I think we have to play the ball from where it is. At
20 the moment we are dealing with an international cartel that has
21 substantial price leverage over the United States.

22 ~~CHAIRMAN SWEARINGEN:~~ Would you give your name please?

23 ~~MR. BRADLEY:~~ I am Curt Bradley of (inaudible),
24 California. Would you be so kind as to give the Administration's
25 present position on depletion?

1 MR. ZARB: Yes. We did not favor removal of domestic
2 depletion when our energy program went forward. We do not
3 favor the removal of depletion on the current tax bill.

4 We do favor that provision being removed from the
5 current tax bill.

6 Now, having said that, I believe very firmly that a
7 tax cut to the American people is the wrong place to have com-
8 plicated depletion legislation to slow it up.

9 I think we all recognize that we are going to have to
10 have a set of protracted discussions with Ways and Means, because
11 they are going to go back into that question even if it does
12 come off the tax bill.

13 I think that ^{this} is going to be the time, we've talked
14 about this before, that we need to talk about the whole concept
15 of windfall tax plowback and capital gains and, for once, put
16 it all on the table and try to make some sense out of it from
17 everyone's point of view.

18 Q MR. KING: Mr. Zarb, I am John King of Northeast
19 Petroleum. Would you tell us if there is any chance that the
20 FEA would be considering relaxation of the present allocation
21 program which, perhaps, is no longer as appropriate as it once
22 was, in its present form?

23 Is there a chance that, say, even if the authority to
24 allocate is extended, which it may well be, there will be a
25 chance of getting more competition back into the marketing segment

1 of the industry by the relaxation of your present firm deferment
2 allocation program?

3 MR. ZARE: Well, we have been waiting to see what
4 happens here with respect to Congressional action and the
5 national energy program.

6 You know our position with respect to the allocation
7 of petroleum controls. We think it is the wrong way to go. We
8 think it should be retained as a stand-by measure and used as
9 only a fine tuning mechanism.

10 I am hopeful that Congress will go along with that. As
11 I mentioned earlier, Ways and Means has gone along with that.

12 Assuming that that is the conclusion, we will move
13 expeditiously to wind down those parts of the program that we
14 can.

15 The way I would like to do that is to begin reviewing
16 our allocation rules from a zero base; taking them one at a
17 time; analyzing their real practicability in this world, as
18 compared to the embargo world; and have them revised and brought
19 up to the contemporary day and age until Congress allows us to
20 have the real time allocation system expire.

21 Therefore, the answer to your question is yes. I
22 think the allocation rules, for the most part, ^{were part of the} would warn of an
23 embargo. We now ought to bring them up to date.

24 MR. WEST: Bob West, Tesoro Petroleum Corporation.

25 Q: When the stated purpose of the President's program was

1 to increase the domestic reserves and domestic productivity,
2 why was the plowback provision deliberately omitted from the
3 windfall profits tax provision?

4 It seems to me that is totally contradictory to the
5 stated purpose of the program.

6 MR. ZARB: The windfall profits package was not in
7 its first round. You know, we don't send anything up in the
8 tax business. We simply go up there and talk to the committee
9 and say, "These are our ideas."

10 That goes into the record and becomes the basis for
11 legislation. It is not like the rest of the energy bill, where
12 we actually send up a piece of legislation.

13 The decision was made to send up the same formula
14 which we had a year ago. The reason for that was to keep things
15 uncomplicated-- knowing that the committee had already done a
16 year's worth of work, both with respect to depletion and plowback.

17 Therefore, we made some assumptions that the admini-
18 strations' position was immediately going to be soaked into that
19 circuitry and thereby changed.

20 I have said publicly several times since then, and
21 also in testimony, that we have two major principles that we
22 think are important: first, to insure that the industry has
23 sufficient return on investment to get the independent's job
24 done.

25 I think that sitting with a group of reasonable men

1 and an eight column sheet, that we can come to agreement as to
2 what that is.

3 There needs to be sufficient return on investment to
4 get the maximum production out of domestic sources through
5 domestic companies.

6 Then, second, beyond that, where there is an excessive
7 and unfair return, then there should be an excess profits tax.

8 I also think that that level can be judged by reason-
9 able men. If you fuss with depletion, I've said, then you've
10 got to go back to look at plowback, you've got to go back to
11 look at capital gains treatment.

12 I think that is where we are. There is no question
13 but that depletion is going to be touched by Ways and Means.
14 That now puts us in a whole new ballgame and we've got to start
15 to rebuild from the ground up.

16 MR. MCCLURE: Mr. Zarb, Harold McClure of McClure Oil
17 Company.

18 Q In the light of your last statement, when you speak
19 to the point of rate of return, it seems appropriate that we
20 should mention that the exploratory phase of this business
21 does not function on the rate of returns.

22 I think that this should at least be figured in your
23 discussions. There are many, many companies that have gone a
24 life time and drilled many wells and never been successful.

25 There are many who have drilled fewer wells and been

1 extremely successful.

2 It is not the rate of return concept that should
3 be forthcoming.

4 MR. ZARK: Well, we ought to talk about that a little
5 bit more. While technically we don't need to stay with the
6 rate of return concept, substantively, rate of return is what
7 I understand.

8 We ought to talk about it some more. It is a question
9 of having sufficient investment flow to insure maximum produc-
10 tion capacity.

11 When we get beyond that concept, then maybe there is
12 something about this that I do not understand and we ought to
13 talk about it.

14 Thank you very much.

15 (Applause.)

16 CHAIRMAN SWEARINGEN: Now I would like to call on
17 Mr. Jack Carlson, the Assistant Secretary of the Interior, to
18 introduce the new members who were named to the Council a few
19 months ago.

20 Mr. Carlson.

21 MR. CARLSON: I am pleased, on behalf of the Department
22 of Interior, to announce the appointments to the Council, the
23 appointments made by the Secretary of Interior, under the new
24 groundrules of the Federal Advisory Committee Act.

25 We have added new members in some other sectors that

1 the oil and gas industry impacts upon, so that we will have
2 representation that will include the people that are concerned
3 from extraction to final use.

4 In terms of those on the consumer end, that have now
5 joined the Council and will work with the Council on its different
6 studies, we have Charles F. Bulotti, Jr., President of the
7 American Automobile Association.

8 If these people are here, I would appreciate it if
9 you would stand when your name -- there we are. Thank you.

10 Ms. Ruth C. Clusen, President of the League of Women
11 Voters; William J. Kuhfuss, President of the American Farm
12 Bureau Federation; and Jay W. Schmiedeskamp, concerned with
13 consumer attitudes, the Institute of Social Research, the
14 University of Michigan.

15 To represent the environmental concerns, we have
16 Mr. Kent Gill, President of the Sierra Club; Mr. Elvis J. Stahr,
17 President of the Audubon Society; and Mr. Thomas L. Kimball,
18 the Executive Director of the National Wildlife Federation.

19 To represent labor's important impact on this area,
20 we have Mr. Andrew J. Biemiller, the Director of the Department
21 of Legislation, AFL-CIO; Mr. Frank E. Fitzsimmons, President of
22 the International Brotherhood of Teamsters.

23 To represent an academic point of view, we have
24 Dr. John A. Carver, Jr., who is a former undersecretary of the
25 Department of Interior, who is now Professor of Law at the Denver

1 Law School; Dr. Paul W. MacAvoy, Professor of Management at the
2 Massachusetts Institute of Technology.

3 To represent industrial users, we have Mr. Ed Carlson,
4 Chairman of the Board, United Airlines; Mr. John Dollinger,
5 President of the National Rural Electric Cooperative Association;
6 Dr. John S. Foster, Jr., Vice President of Energy Research and
7 Development, TRW, Inc.; Mr. Robert Gilkeson, Chairman of Edison
8 Electric Institute; Mr. William Hulbert, Jr., President of the
9 American Public Power Association; and Mr. John F. O'Connell,
10 President of Bechtel Corporation.

11 Representing independent marketers, in addition to the
12 ones we do have, Ms. Mary Hudson, President of Hudson Oil
13 Company; Mr. James C. Scanlan, President of Pennsylvania Oil
14 Company; and Mr. D. E. Woodrick, Executive Director of Midwest
15 Petroleum Marketers.

16 Representing transportation, in addition to the ones
17 we have on the Council already, Mr. Robert E. Thomas of MAPCO,
18 Incorporated.

19 Representing finance, we have Mr. John G. Winger,
20 Vice President of the Chase Manhattan Bank.

21 We've had other changes, organizational changes,
22 retirements and reassignments that have occasioned the substitu-
23 tion of existing members.

24 Therefore, we have new members in this category,
25 Mr. Leroy Culbertson, President of the Gas Processors Association;

1 the Honorable Edwin W. Edwards, Governor of Louisiana and
2 Chairman of the Interstate Oil Compact Commission; Mr. C. J.
3 Gauthier, Chairman of the American Gas Association; Mr. Thomas
4 E. Love, President of the National Oil Jobbers Council;
5 Mr. T. P. McAdams, Jr., President of the National Stripper
6 Well Association; Mr. Frank L. Thompson, President of the
7 International Association of Drilling Contractors; and
8 Mr. W. J. Bowen, President of Transco Companies.

9 Also, we have Mr. James E. Hara, President of Skelly
10 Oil Company and Mr. George W. Jandacek, President of Clark Oil
11 and Refining Corporation.

12 We are very pleased, on behalf of the Department of
13 Interior, to welcome these gentlemen on this very important
14 advisory committee, the National Petroleum Council.

15 I, for one, am pleased to give them a hand.

16 (Applause.)

17 CHAIRMAN SWEARINGEN: Now, ladies and gentlemen, it
18 gives me -- first of all, let me add my welcome to Mr. Carlson's
19 to the new members of the Council.

20 Certainly I hope you will participation in the Council
21 in those areas, will be rewarding. We will be calling upon you
22 for help and assistance as time goes along.

23 I would now like to call on the Secretary of the
24 Interior, who is here today wearing the hat as Cochairman of the
25 National Petroleum Council, to address some remarks to the group

1 The Honorable Rogers C. B. Morton.

2 STATEMENT OF THE HONORABLE ROGERS C. B. MORTON,
3 SECRETARY OF THE INTERIOR

4 SECRETARY MORTON: Thank you very much, John.

5 Ladies and gentlemen, I am delighted to share in the
6 welcome of the new members of this Petroleum Council.

7 [I think it might be appropriate for me, just for a
8 minute, to take a look at the mission of this organization and,
9 perhaps, by way of explanation, talk for a second about the
10 make-up of the new membership.

11 This is a National Petroleum Council. It deals with
12 advice and counsel in the area of the oil and gas industry and
13 in the area of the resource development and resource conservation.
14 That is what it was organized to do.

15 It was organized to support the Department in carrying
16 out its mission.

17 I hope that though we have new points of view, and I
18 think that it is very fine that we do, that we don't try to make
19 this Council all things to all people.

20 It must, I think, deal with the husbanding of one of
21 our great national resources. It must deal, too, with the
22 well-being of the industries that it represents.

23 Otherwise, it becomes a political advisory board and
24 we don't want that to happen to this board or this Council -
25 even though we welcome many other opportunities for political

1 advice and we get a hell of a lot that we don't even welcome.

2 ~~(Laughter.)~~

3 ~~SECRETARY MORTON:~~ I think Frank ^[Zark] went over the
4 status quo pretty well, as to where we are with the Congress.

5 Last night I had the opportunity to meet with two or
6 three members of the Ways and Means Committee of the House and,
7 in the last few days, I have had the opportunity and have had
8 rather lengthy discussions with some of the members of the
9 Senate --and particularly members of the Senate Finance Committee.

10 I think Frank is right and we are beginning to see an
11 area of mutuality between the leadership of the Ways and Means
12 Committee in the House and those of us who are carrying the ball
13 for the President's plan.

14 My concern is, and I will be very candid about this,
15 that when the Ways and Means Committee and the Administration
16 come together on an agreeable doctrine, even an agreeable set
17 of language in a bill, the big question then is, can the Ways
18 and Means Committee deliver that out of the front door of the
19 House of Representatives?

20 I think our chances would have been a lot better back
21 in the old days, when we had the closed rule. However, I cannot
22 believe that this bill will come to the floor of the House under
23 a closed rule.

24 Therefore, our work is not over when this bill is
25 marked up in committee.

1 I think it behooves the constituency of the bill,
2 the people that are most interested-including consumers who,
3 I think, are going to be more or should be more interested in
4 the long run than any other group in a good national energy
5 policy; that we all should work hard in our efforts to get this
6 bill through the House, itself, and then, subsequently, through
7 the Senate.

8 The old system of thinking the job was done ~~was~~
9 ^{by} the Ways and Means Committee is no longer involved.
10 Therefore, we have a job on our hands.

11 I am not, in any way, trying to sell this Council,
12 because it is the Council that should sell me, really, with
13 advice on the President's program versus any other.

14 What we have tried to do is take certain cardinal
15 principles and hope that those principles can be transferred
16 into language that will result in law, so we can go ahead and
17 move along.

18 I don't think it takes any reiteration of all of the
19 concepts that we feel are fundamental in the development of oil
20 and gas in this country.

21 I don't think there is any question about the independ-
22 ence posture that we must try to achieve as far as the rest of
23 the world is concerned. Everybody seems to agree on that.

24 I think there is some problem in the timeframe that
25 we are willing to accept as tolerable to get from here to there.

1 There is some question as to whether the marketplace
2 or the price mechanism is the way to go about changing the
3 user patterns and development patterns of the resource.

4 There are those who feel that we must do this by
5 volumetric control. Call it what you will. It ends up with
6 some kind of rationing.

7 There are those who believe that you should let the
8 forces in the marketplace work and that we can go from an old
9 to a new energy ethic by letting the people that use energy make
10 the decision, rather than somebody sitting here make the
11 decision.

12 We are strong, of course, for the marketplace approach.
13 I don't think you can mix the two and there are those on the Hill
14 that would like to mix the two.

15 The only place where I think the volumetric approach
16 or the actual number of barrels per day used by ^{the} controlled
17 approach is acceptable is in a standby configuration, where you
18 use it if you have to under emergency conditions because something
19 else has happened.

20 I am really concerned that certain trends, though,
21 seem to be starting, that are going to tend to discount our
22 market approach.

23 What are some of these trends and why do I say that?
24 Well, let's just take a look at some of the two-by-fours that
25 have been knocked over my head in front of committees of the

1 Congress during the last month or so by very substantial power
2 positions in both the House and the Senate.

3 [I have tried to explain a hundred different ways why
4 a Federal oil company doing the exploration job on the Outer
5 Continental Shelf is not as effective and is not in the national
6 interest, as letting the industry, which has historically
7 developed the expertise and capability and the motivation to
8 do this, do the job.]

9 The leadership of this position seems to be
10 Senator Hollings of South Carolina, who, I am sure, is very
11 sincere in his beliefs that the Federal Government should and
12 can effectively do the exploration job.

13 I think he really believes it. I think he is sincere
14 in it and I respect his honesty and sincerity in this direction.
15 However, I do not think there is an understanding of what is
16 involved.

17 All you have to do is look at the pattern of bidding
18 on tracts that are offered for sale on the Outer Continental
19 Shelf and you will see that there is a great deal of difference
20 in judgment between what company "A" thinks a property is worth
21 and what company "B" thinks a property is worth.

22 The only way you are going to win in the roulette
23 business that we are in is for somebody to bet on every number
24 and somebody will win.

25 It takes that kind of motivation and that kind of

1 disparity, if you will, of judgment to get a blue chip on all
2 of the numbers.

3 I hope that we are going to do a better job in the
4 selection of tracts that will lead to more efficient exploration
5 through a good many devices; such as, for example, a unitization
6 of structures through selection, in the first place, of the
7 more desirable structures, where exploration can have the best
8 odds.

9 Therefore, we are going to keep that fight going and
10 I am perfectly willing to get beaten on the head some more, but
11 I would like a little help once in a while.

12 I just want to tell you that this is no dream. I
13 would like to pinch myself and wake up and find that the proposal
14 that the geological survey to go out and make the exploration
15 decisions would go away.

16 However, that is a trend that seems to be catching
17 on and we must face up to it, not because it is immoral, not
18 because it is a centralization of power in the government --
19 that would be a good enough reason for me -- not because it is
20 somehow reflective against the integrity of the industry, though
21 I think it probably is, but because it is not the best way to
22 develop the resource.

23 It is not the best way to find oil and it is not the
24 best way to find gas. It is not the best way to bring it to
25 shore and it is not the best way to dispose of it after you find

1 it.

2 Therefore, I am in ^{the} hopes that the industry -- though
3 I will admit ^{it} is suspect in trying to help protect itself, (in
4 Congress that seems to be something else that has come up in the
5 last few years) -- will help and will give me strength and courage
6 to keep fighting the proposition of putting the Federal Government
7 either onshore or offshore in the oil and gas business.

8 I would like to also cite another trend that I do
9 not think is altogether bad. There seems to be a desire, on
10 the part of local governments and particularly state governments,
11 to be involved, to be involved in the decision making process
12 that leads up to some kind of change in their coastal zone
13 environment or their environment at all.

14 I am not too sure that is bad. In fact, I think that
15 is good.

16 If we can get a smooth system of planning, of develop-
17 ing, that will prevent us from going back and forth in this
18 bellows fashion into the courts of law trying to get a job
19 done, I think we will all be ahead of the game.

20 Therefore, I am trying to develop an open door policy
21 as far as communication is concerned. I am perfectly willing to
22 listen to ideas of joint participation in the revenue aspects
23 that go to government or revenue portions that go to government,
24 rather, from offshore resource development.

25 If we can do this and we can overcome the environmental

1 problems by solving the problems, not by stiff-arming them or
2 overriding them, we will then, I think, go a long way in the
3 development of our resources and reach the ultimate goal of
4 independence.

5 I think we can see a trend of excise taxes coming
6 along, I kind of get the feel^{ing}, on excise taxes on the upper
7 reaches of machines that consume energy.

8 There is going to be a constant push for more
9 efficient machines. We see this in the form coming up probably
10 first, in an automobile power or weight excise tax that will
11 penalize the big one and encourage the consumer to buy the small
12 one.

13 If that trend gets going, it could well become much
14 more pervasive and could enter into the appliance field and
15 even in the industrial equipment field.

16 There is some good about it, but there is also a lot
17 that is bad about it when you think of it. The decisions should
18 be made, not by government, on the kind of machine that is bought
19 for a particular person for a particular use, but should be decided
20 on by its owner or its manager, so we don't begin to try to
21 manage technological development from the government. That is
22 the aspect that is bad.

23 The aspect that is good ^{is that} it seems to be politically
24 palatable; everybody thinks it is a fine idea and we are going
25 to convert Detroit suddenly from one portfolio of models to

1 another.

2 I think we should be very careful about setting up
3 that kind of philosophy and that kind of control in government.

4 On the question of environmental controls, and this
5 is my last point, we seem to be getting an awful lot of flak
6 today, here, by people who are frustrated simply because they
7 have not been able to site something or build something or
8 construct something because of an environmental stall or
9 stalemate. Most of this is procedural.

10 I don't think there is anybody in here for dirty
11 water or dirty air. If there is somebody that is for dirty
12 water or dirty air, don't run on that ticket because you will
13 have a hell of a time to ^{winding on} collect it.

14 However, we have created a very complicated system of
15 trying to evolve an environmental ethic within a developmental
16 set of procedures or circumstances, such as siting a plant or
17 designing a plant.

18 The result has been that a lot of people have said,
19 well, the pendulum has swung too far. We've got to do something
20 about it.

21 I don't believe that the environmental controls, or the
22 environmental goals either, are going to disappear. I very
23 frankly hope they don't.

24 However, we have got to procedurally structure
25 ourselves to get from here to there with more grace and more

1 alacrity and easier than we are today or we are going to
2 subordinate our total civilization and industrial capability
3 to a kind of a funny environmental ethic.

4 When we start doing that, the rest of the industrial
5 world will go by us and we will be sitting quite embarrassed,
6 economically embarrassed and politically embarrassed, before the
7 rest of the world.

8 Therefore, what I am trying to and what this Depart-
9 ment is trying to do and what I need help on is a refinement
10 of the procedural system to make sure that, within the framework
11 of acceptable technology, we are doing the best job we possibly
12 can.

13 If there is a timeframe that we cannot span, we have
14 got to lengthen it out. We have got to procedurally change
15 the structure or the methodology by which we get there.

16 However, we do not suddenly have to stiff-arm the
17 entire environmental program and stiff-arm the concepts and
18 goals, because if we do, we are just creating for the next
19 generation a horrendous liability.

20 We are capable of doing this. I congratulate this
21 industry, because if you will look at the refineries today, if
22 you will look at the modern offshore rigs and terminal facilities
23 today, and compare them with yesterday, ten years ago, you will
24 see the tremendous strides that have been made.

25 For those people who are trying, for example, to not

1 have some kind of organized reclamation system for lands that
2 are disturbed by, for example, strip mining or deep mining, you
3 are going the wrong way because the real estate, itself, is
4 going on to a plateau of value which necessitates, from an
5 economic point of view, a new kind of husbanding and care than
6 it has ever had before.

7 Now, we don't want a Christmas tree environmental
8 legislation with procedural impediments that prevent us from
9 doing it within current technology and prevent us from doing it
10 because of basic and fundamental economic prohibitions.

11 I think the trend is going to continue. I am going
12 to try to continue to simplify the procedure and I think it is
13 up to us to work together and up to you to help and address
14 yourself to this problem.

15 One final thing, of course, and that is the question
16 of can we do it? Now, we have seen the natural gas situation,
17 for example, this winter, creating all kinds of distortions
18 in the economy, particularly in those processes that are on
19 interruptible contracts yet require gas as an inherent part of
20 the process.

21 We are going to, as I understand, study the whole
22 matter of curtailment of gas. I think out of that study should
23 come some very sage and good advice on how to go.

24 Politically, what we have to do is to try to create
25 a climate of mission in this country for the resource development

1 industry, that results in an interpretation by the individual
2 consumer, himself, that "I need this industry."

3 They will all admit today that they need the gas, that
4 they need the oil, that they need the coal, that they need to
5 turn the switch and get the light, but they are unwilling to
6 accept the organizational structure that makes those provisions.

7 For some unknown or known reasons during the years,
8 the supply has become more abundant and, in terms of every
9 other commodity, more reasonable in price; yet the fellow who
10 has furnished that supply has become more incredible.

11 I think it is a matter of communication, not only
12 the type of communication but with whom you are communicating.

13 It is a matter of being willing to expose the truth.
14 When an error is made, don't try to cover it up; don't try to
15 reconstruct balance sheets on annual reports so that they are
16 deceiving.

17 I think this country is ready to accept a good return
18 and I am not talking about a reasonable, but a good return on
19 investment as a philosophy for the resource and energy industries.

20 Let's ^{not} don't try to fool them with any kind of figures
21 that are not interpretable. I don't question their accuracy and
22 I don't quite think that anybody is trying to shade the facts
23 or distort the numbers.

24 However, there seems to be some kind of a rift develop-
25 ing between the consumer, himself, and his supplier that is not

1 wholesome.

2 I believe this Council, in its wisdom, with the
3 talent that it has can do much to abridge that score.

4 I am perfectly willing to meet anybody halfway anywhere
5 in this country to try to develop a better relationship between
6 the resource industry, be it petroleum, be it mines, be it
7 minerals or be it coal or what have you, and the people of
8 this country, who are so dependent on it in terms of their
9 quality of life.

10 Let's recognize our political shortcomings and see
11 what we can do to turn that trend around. #

12 Thank you very much.

13 (Applause.)

14 CHAIRMAN SWARINGEN: Secretary Morton has consented
15 to answer a few questions, if any of you would like. Please
16 stand and identify yourself when you ask your question.

17 (No response.)

18 SECRETARY MORTON: We've got them mesmerized. That's
19 what it is.

20 (Laughter.)

21 SECRETARY MORTON: Thank you, sir.

22 I have to go up and try to deregulate natural gas all
23 in one morning.

24 (Laughter.)

25 (Applause.)

1 CHAIRMAN SWEARINGEN: Now, I would like to go to the
2 next item on the agenda and call on Mr. Jake Hamon to present
3 a Memorial Resolution on behalf of Mr. Arch Rowan.

4 MEMORIAL RESOLUTION TO ARCH H. ROWAN BY JAKE HAMON.

5 MR. HAMON: Mr. Chairman and members of the Council,
6 Arch H. Rowan, a prominent business and civic leader and a
7 charter member of the National Petroleum Council died at
8 Fort Worth, Texas on January the 19th, 1975 at the age of 80
9 years.

10 He was survived by his beloved wife, Stella Rowan,
11 and his two daughters, Jean Rowan McNab and Sue Rowan Pittman,
12 and seven grandchildren.

13 Mr. Rowan was a native Texan born at Alban, Texas on
14 October 9th, 1894. He attended primary school in Alban, Texas
15 and in Houston, Texas.

16 However, due to the bad fortune on the part of his
17 family, he left school at the age of twelve years and went to
18 work to make a living.

19 His life from then on proves that America is, indeed,
20 the land of opportunity.

21 He first entered the oil business in 1916, as an
22 employee of the Texas Company, now Texaco. However, his career
23 was interrupted by World War I, when he enlisted in the Marine
24 Corps and served with distinction.

25 After severance from the Marine Corps in World War I,

1 he went to work for Humble Oil Refining Company, now known as
2 Exxon, as a roughneck in the oil fields at Goose Creek, Texas.

3 In 1923, in company with his brother, Charles Rowan,
4 the Rowan's Drilling Company was organized. Through a corporate
5 reorganization in 1948, Rowan's Drilling Company and Rowan Oil
6 Company were formed.

7 Rowan Oil Company was later consolidated with Texas
8 Pacific Coal and Oil Company. Rowan Drilling Company, currently
9 operating as Rowan Companies, became a publicly owned interna-
10 tional drilling company with oil field drilling operations both
11 offshore and onshore, being conducted in numerous geological
12 provinces throughout the world.

13 Mr. Rowan, from time to time throughout his extensive
14 career, held directorates or memberships in many industry
15 organizations; such as the Texas Mid-Continental Oil and Gas,
16 Independent Petroleum Association, American Association of
17 Oilwell Drilling Contractors, the American Petroleum Institute,
18 and the American Institute of Mining and Metallurgical Engineers.

19 In addition, he was a member of the petroleum industry
20 war council and served on it during World War II. Other
21 directorates included the Texas and Pacific Coal and Oil
22 Company, Fort Worth National Bank, the Capital National Bank of
23 Houston, Vice Chairman of the Texas Turnpike Authority, United
24 Fund Fort Worth, and the American Red Cross, and the Southwestern
25 Exposition on Fat Stock Show.

1 He received numerous awards, including the Distinguished
2 Service Award from the Texas Mid-Continental Oil and Gas
3 Association, the Golden Deeds Award from the Exchange Club of
4 Fort Worth, Chief Roughneck Award from the Lone Star Steel
5 Company, and an honorary Doctor of Laws from Bethany College,
6 Bethany, West Virginia.

7 He was a member of the University Christian Church at
8 Fort Worth, a Shriner, and in the American Legion.

9 The National Petroleum Council honors the memory of
10 Mr. Rowan for his many contributions to this group and his
11 esteemed friendship and, also, for his personal interest in this
12 Council, as well as his many contributions to the growth and
13 development of his community, his state, and his nation.

14 Be it therefore resolved that this, a memorial
15 resolution, be adopted as a part of the permanent record of the
16 National Petroleum Council and that appropriate copies be
17 tendered to his beloved wife and members of his family, as an
18 expression of our appreciation and of our heartfelt sympathy
19 to them.

20 Mr. Chairman, I move the adoption of this memorial
21 resolution.

22 CHAIRMAN SWEARINGEN: Thank you, Mr. Hamon.

23 May I suggest that the Council members please stand
24 for just a moment in tribute, to express the adoption of this
25 resolution.

1 (Members standing.)

2 CHAIRMAN SWEARINGEN: Thank you very much.

3 Please be seated.

4 Now, I would like to ask Mr. Hamon to continue at
5 the podium and give his report of the Agenda Committee, if you
6 will, Mr. Hamon.

7 REPORT OF THE AGENDA COMMITTEE, BY JAKE HAMON

8 MR. HAMON: Thank you.

9 The Agenda Committee met on January 28th, 1975 in
10 the offices of the National Petroleum Council, to review
11 Acting Secretary of the Interior Jack W. Carlson's letter of
12 December 31st, 1974 to the Chairman of the Council.

13 In his letter, Secretary Carlson requested the Council
14 to undertake a study of the factors involved in the implementation
15 of a security storage system similar to that recommended by the
16 Council in its summary report of September 10th, 1974, "Emer-
17 gency Preparedness for Interruption of Imports into the United
18 States."

19 In requesting this study, Mr. Carlson stated that the
20 analysis should include, but not necessarily be confined to,
21 discussions of: the optimum size of the security storage system
22 in terms of total volume and deliverability; the alternatives
23 available for providing this storage as quickly as possible; the
24 financing problems which could be encountered; the sources and
25 types of fill for the storage; and Federal Actions that could

1 expedite or better the development of such a storage system.

2 Mr. Carlson also recommended that the analysis include
3 discussion of the relative needs of crude versus product storage
4 and any geographical, logistical or environmental constraints
5 which might be encountered were the nation to be confronted
6 with another energy emergency.

7 In making this analysis, it was suggested that the
8 Council consider storage systems ranging from 500 million
9 barrels to one billion barrels and that the systems be analyzed
10 on two bases: first, normal development consistent with the
11 objective of minimizing costs, and, secondly, rapid development
12 based on minimizing time to completion.

13 With respect to the latter case, the Secretary
14 requested critical materials and problems to be identified.

15 Finally, it was requested that the study be completed
16 as soon as practicable with a report ready for presentation to
17 the Secretary of Interior by May of this year.

18 As provided in the Articles of Organization of the
19 Council, this letter of request was considered by the Agenda
20 Committee on January the 28th and it was unanimously agreed to
21 recommend that the Council undertake the study as requested.

22 Pursuant to Article 13, Chairman John E. Swearingen
23 then referred Acting Secretary Carlson's request to the Committee
24 on Emergency Preparedness for study and recommendation to the
25 Council.

1 Now, Mr. Chaikman, our committee was furnished two
2 requests by Secretary Carlson yesterday afternoon, which requests
3 I plan to take up with the Agenda Committee as soon as possible.

4 I have called a meeting and we will report on it at
5 the next meeting of the Council.

6 Thank you.

7 CHAIRMAN SWEARINGEN: Thank you very much, Mr. Hamon.

8 I do not believe Mr. Hamon's report requires any
9 action on the part of the Council this morning. If there are
10 any questions, however, I am sure Mr. Hamon will be happy to
11 entertain them.

12 (No response.)

13 CHAIRMAN SWEARINGEN: If there are none, thank you
14 very much Mr. Hamon.

15 I would like to proceed to the next item on the
16 agenda. On March 4th, the proposed final report on "Ocean
17 Petroleum Resources" was sent for your consideration and review.

18 This report marks the culmination of the Council's
19 efforts regarding the Law of the Sea on ocean petroleum resources
20 areas, which were first undertaken in 1968.

21 Mr. Wilton Scott will now present the report of his
22 committee.

23 Mr. Scott?

24 REPORT OF THE NPC COMMITTEE ON OCEAN PETROLEUM
25 RESOURCES, BY WILTON E. SCOTT

1 MR. SCOTT: Thank you, Mr. Chairman.

2 In January of last year, the Department of the
3 Interior requested that this Council undertake an additional
4 study concerning ocean petroleum resources to assist the Interior
5 Department and other government agencies in the preparation
6 for its negotiations taking place in the Third United Nations
7 Conference on the Law of the Sea.

8 In terms of the immediate problems of industry that
9 make headlines in the paper these days, the Law of the Sea
10 Conference is somewhat of a sleeper.

11 Yet, this Conference is making history that has long
12 term, if not immediate, significance to worldwide energy supply
13 problems and the determination of economic growth of all countries.

14 In the first place, the Conference comprises the
15 largest gathering of participants, some 140 nations.

16 In the second place, it has on its agenda for resolu-
17 tion just about the most complex and numerous issues ever faced
18 by an international conference.

19 Many of these issues we have dealt with in previous
20 NPC reports, some three in number.

21 Under the constraints of time, I shall not review the
22 contributions of the NPC studies to the preparations, since 1969,
23 leading to the current Law of the Sea negotiations.

24 These reports, in response to study requests of the
25 government, are a matter of record and are cited in this report

1 that you have before you today.

2 I would be remiss, however, if I did not mention that
3 our prior reports were instrumental in providing our governmental
4 policy makers with the information and recommendations that
5 enabled them to arrive at more considered judgments as to our
6 national interests and the prospect of resolving some of the
7 many problems of the Law of the Sea issues.

8 The present report, which you are considering today,
9 is no exception. It is not intended to supersede the Council's
10 earlier reports.

11 Rather, the report treats certain key matters respec-
12 ting ocean petroleum resources which the Interior Department
13 considers important parts of a comprehensive treaty dealing with
14 the Law of the Sea, particularly from the standpoint of our
15 national interests.

16 As requested by the government, the report is an
17 updating of previous data and a more intensive and appreciative
18 analysis of the petroleum related issues currently being negoti-
19 ated in the Law of the Sea Conference.

20 The Committee has been ably assisted by a Coordinating
21 Subcommittee under the chairmanship of Cecil J. Olmstead of
22 Texaco.

23 As a member of the U. S. Delegation to the Law of the
24 Sea Conference, Advisory Committee to the State Department on
25 the Law of the Sea, Marine Petroleum and Mineral Advisory

1 Committee to the Commerce Department -- and this list could go
2 on and on -- Cecil has been a tower of strength in the work of
3 the NPC study of the ocean petroleum resources and many others.

4 We had the critical support from four task groups
5 drawn, thanks to many of you here today, from among the best
6 expertise in our industry.

7 Making available such talent is the measure of worth
8 of the NPC contribution that we make to our country and we can
9 be measured by the worth or quality of our report.

10 I have asked Cecil Olmstead to outline briefly the
11 salient conclusions and the recommendations of the Committee's
12 report that you will be voting on today.

13 Cecil?

14 STATEMENT OF CECIL J. OLMSTEAD ON NPC COMMITTEE ON
15 OCEAN PETROLEUM RESOURCES

16 MR. OLMSTEAD: Thank you Mr. Scott.

17 Mr. Chairman, members of the Council, ladies and
18 gentlemen, as you know, the Geneva Session of the United Nations
19 Conference on Law of the Sea convened yesterday.

20 This session will, in our view, determine whether
21 there is a reasonable probability of achieving a convention
22 which would equitably resolve the many complex issues resulting
23 from more intensive uses of ocean space.

24 If this Geneva session of the Conference does not
25 demonstrate genuine progress in the resolution of these issues,

1 I think the United States should reconsider the advisability
2 of further efforts in trying to reach a treaty solution at this
3 time.

4 A little more than a year ago, the Department of the
5 Interior again requested that the National Petroleum Council do
6 further work regarding petroleum operations in ocean space.

7 The results of this work, the report now before you,
8 are in response to the request for assistance to the Department
9 in preparation for the Law of the Sea Conference. Thus, its
10 completion today is indeed timely.

11 I might say it demonstrates the long range planning
12 capabilities of the Council, to make it coincide with the
13 beginning of the Conference.

14 Specific subjects which we were requested to address
15 were the present state of technology for exploration and develop-
16 ment of seabed petroleum resources, the potential for petroleum
17 in seabed areas worldwide, and views regarding international
18 minimum standards to govern safety and pollution control for
19 offshore exploration and development.

20 Another significant matter which we were asked to
21 consider was design and construction and operating standards
22 for tankers, to ensure safety of operation and minimization of
23 pollution hazards.

24 Our report includes a comprehensive review of offshore
25 seabed exploration and production technology and concludes that

1 this technology can be extended to deeper waters at a very rapid
2 rate.

3 As to the potential for petroleum resources in frontier
4 areas of the continental shelf and slope offshore the United
5 States, this report concludes that there may well exist accumu-
6 lations capable of reversing the current decline in U.S.
7 production.

8 While no precise estimates of petroleum resources in
9 these areas are possible, the report does urge accelerated
10 leasing and exploration.

11 Costs for exploration and development and production
12 of petroleum in seabed areas will increase substantially with
13 water depth and climate severity.

14 Nonetheless, such petroleum resources are expected
15 to be economic under various combinations of reservoir size, water
16 depth, and climate.

17 On the other hand, economics of these resources can
18 be severely impaired by oppressive and excessive governmental
19 financial take.

20 This report repeats the Council's prior recommendation
21 that: "A new Law of the Sea Convention should confirm the
22 exclusive jurisdiction of the coastal state over the exploration
23 and production of seabed mineral resources throughout the natural
24 prolongation of its land areas into and under the sea."

25 To determine the limit of this natural prolongation of

1 the land areas of the coastal state, or the boundary between
2 seabed areas under coastal state jurisdiction and the areas
3 under international jurisdiction, we recommend that the base of
4 the continental slope be used as a guide to the boundary and that
5 the exact jurisdictional boundary be fixed within a boundary
6 zone of an agreed, reasonable width extending seaward from the
7 base of the slope.

8 You might say that concept was developed by a long-
9 time member of our Subcommittee, Dr. Hollis Hedberg, and it
10 does show increasing acceptance among some states in the
11 Conference.

12 Most importantly, the superjacent waters of this
13 area where the coastal state exercises seabed resource juris-
14 diction should retain their character as high seas, thereby
15 assuring freedom of navigation, the movement of commodities,
16 including petroleum.

17 We strongly urge that a new Law of the Sea Convention
18 provide that agreements between a foreign investor or operator
19 and a coastal state, for petroleum exploration and production,
20 be binding according to their terms and that any disputes arising
21 out of such agreements be resolved under objective, compulsory
22 disputes settlement procedures also provided for in a
23 Convention.

24 Achieving provisions along these lines would represent
25 a genuine accomplishment and could bring a needed element of

1 stability to international petroleum arrangements.

2 The report strongly urges that access to seabed
3 mineral resources in the deep ocean area beyond national juris-
4 diction be without discrimination and available to all finan-
5 cially and technically qualified organizations, including,
6 particularly, private companies.

7 Although immediate interest in the deep ocean area
8 will be in hard minerals, the petroleum resource potential of
9 that area is largely unknown, but it may be as much as two percent
10 of the world's ultimately recoverable petroleum.

11 Of course, as consumers of the hard minerals found in
12 manganese nodules, we have an indirect interest in a system which
13 will encourage development pursuant to a market type of approach,
14 rather than a regulated approach.

15 One of the most important recommendations of the report
16 is that freedom of navigation for merchant vessels be maintained
17 by the convention for transit through international straits, the
18 waters of the economic zone and the territorial sea, and that
19 pollution control standards and their enforcement not be applied
20 so as to impair this essential freedom.

21 Provisions of the Convention regarding protection of
22 the marine environment should establish procedures and confirm
23 the Inter-Governmental Maritime Consultative Organization, IMCO,
24 as the appropriate institution for reaching international agree-
25 ment on standards concerning vessel source pollution.

1 The Convention should provide for internationally
2 agreed minimum operational safety and environmental standards
3 for drilling rigs and offshore deep water platforms, as well
4 as offshore deep water petroleum terminals.

5 These standards should take the form of capabilities
6 to perform under given conditions of weather and climate, rather
7 than detailed specifications about the design and construction
8 of these facilities themselves.

9 Enforcement of such standards should not be in the
10 hands of an international organization, but rather should be a
11 responsibility of the adjacent coastal state.

12 It is our view that the inclusion of compulsory, inde-
13 pendent disputes settlement procedures and mechanisms is an
14 essential element of a new Law of the Sea Convention.

15 We strongly urge that private parties have access to
16 such procedures and institutions, particularly for disputes
17 arising out of seabed mineral resource development arrangements
18 and for disputes involving vessels or their cargoes.

19 Without such provisions in a new Convention, I,
20 personally, seriously question whether the United States should
21 be a party to it.

22 It is indeed apparent that the negotiation of a treaty
23 in today's international arena, which would include the elements
24 here outlined, will be a very difficult task.

25 Assuming that this report is adopted today, we shall

1 make these views known to the U. S. Delegation in Geneva without
2 delay.

3 I might say this Committee will be represented in the
4 U. S. Delegation throughout the entire Geneva session.

5 Before closing, I want to thank all of those who have
6 devoted their knowledge, talents, and hard work to the prepara-
7 tion of this report on "Ocean Petroleum Resources."

8 More than 50 industry representatives and seven
9 U. S. Government representatives have participated actively in
10 the study and preparation of this report.

11 The staff of the National Petroleum Council has provided
12 strong support and assistance to our effort to meet the deadline,
13 which we have.

14 I know I express the sentiments of all of us when I
15 say, "Thanks to you who made the resources available for this
16 study."

17 Thank you.

18 CHAIRMAN SWEARINGEN: Thank you very much, Mr. Olmstead.

19 Is there any discussion or any question about the
20 report that anyone, who is a member of the Council, would like
21 to raise.

22 MR. ABERNATHY: Mr. Chairman, I am Jack Abernathy
23 of Big Chief Drilling Company. I would like to ask Mr. Olmstead -
24 he talked quite a little here about the groups of nations
25 favoring this and that - I am wondering if the Russians are

1 supportive, generally, of the position we have or some different
2 positions as well, if you would speak to that?

3 MR. OLMSTEAD: Mr. Abernathy, I would say that the
4 position of the Soviets, as I understand it, and our own
5 Government's position are fairly close on some of the important
6 elements of the treaty.

7 Freedom of navigation, to move goods and commodities
8 through vessels on the oceans, seems to be very important to
9 them as well as to us.

10 They do not favor a strong international organization
11 to regulate uses of ocean space, which also is close to our
12 position, although perhaps for different reasons -- nonetheless,
13 a position.

14 They, of course, are not a free enterprise country,
15 as we know. Nonetheless, they do not want an international
16 organization to run the deep ocean area.

17 I guess they prefer to do it through their institutions,
18 as we prefer to do it through ours.

19 There are some differences between the Soviets and
20 ourselves on the extent of coastal state jurisdictions.

21 We favor a very broad kind of margin. I think they
22 have looked at their offshore areas and concluded they don't
23 need that much. Therefore, why should they -- their resources
24 are located close to shore -- support something that might cause
25 some objection in some countries when they don't need it.

1 By and large, I would say -- now, on dispute settle-
2 ment, that is setting up a tribunal or an arbitral body, they
3 have not been very forthcoming on that issue, although they have
4 not been negative about it; that is, the independent tribunal
5 to resolve disputes which we might find ourselves involved in.

6 By and large, there is an area of cooperation, I
7 think, between the two countries.

8 MR. ABERNATHY: Thank you.

9 CHAIRMAN SWEARINGEN: Are there any other questions
10 or comments?

11 (No response.)

12 CHAIRMAN SWEARINGEN: If not, then it has been proposed
13 that the Council adopt this report and transmit it to the
14 Secretary of the Interior.

15 Will all those in favor please signify by saying aye?

16 (Chorus of ayes.)

17 CHAIRMAN SWEARINGEN: Opposed?

18 (No response.)

19 CHAIRMAN SWEARINGEN: Thank you very much.

20 The report is approved subject to minor editing.

21 I should like to extend my thanks to you, Wilton, and
22 to you, Cecil, for your part in undertaking this very difficult
23 task and bringing it to fruition, as well as the many people
24 who worked closely with you in putting it together.

25 Thank you.

1 The Council is working two other areas, energy
2 conservation and security storage of petroleum.

3 Mr. Maurice Granville is not with us this morning,
4 but I would now like to call on Mr. Bob McCay, who is Chairman
5 of the Coordinating Committee, to present a progress report for
6 the Committee on Energy Conservation.

7 Mr. McCay?

8 STATEMENT OF MAURICE F. GRANVILLE, COMMITTEE ON
9 ENERGY CONSERVATION: PRESENTED BY ROBERT MCCAY

10 MR. MCCAY: Thank you, Mr. Chairman.

11 "At the September 10th Council meeting, you approved
12 the Energy Conservation Committee's Phase I Report entitled,
13 'Potential for Energy Conservation in the United States:
14 1974-1978.'

15 "This report and its attendant Industrial and Electrical
16 Utility Task Group Reports have been published. The remaining
17 Transportation and Residential/Commercial Task Group Reports
18 have been completed and will be published in the near future.

19 "The Coordinating Subcommittee and Task Groups are
20 currently working on the Phase II, 1979-1985, Report. This
21 report is scheduled for completion at mid-year.

22 "Detailed plans for the Phase II study effort were
23 presented at the last Council meeting, and I will review and
24 update our program for you today.

25 "The Phase II Report is being developed as an extension

1 of the Phase I Report, with extended consideration of energy
2 conservation potentials identified in Phase I, stressing improved
3 energy utilization and attaining optimum efficiency of output per
4 unit of energy input.

5 "We are developing a qualitative insight of long-term
6 energy conservation potential, concentrating on technological
7 advances in three stages.

8 "The first stage is considering advances that have
9 been achieved and are ready for implementation. This work
10 includes an assessment of maximum, theoretically attainable
11 efficiencies, present efficiencies, and the probability of
12 approaching more closely these maximum theoretical efficiencies.

13 "The second stage is considering technological advances
14 that are presently in the laboratory and that are deemed to be
15 technically feasible, but not immediately ready for implementa-
16 tion.

17 "The third stage is looking to advances on the horizon
18 that will require more development to determine commercial
19 feasibility.

20 "The foregoing are being incorporated into a techno-
21 logical assessment of future changes that will enhance the
22 effectiveness of energy use systems.

23 "1985 is not being considered as an arbitrary cut-off
24 date and our Phase II work will extend beyond that date, as
25 deemed necessary.

1 "The Phase II report will be published as a single
2 volume, incorporating the work of all Task Groups. We hope to
3 present the completed Phase II report to you in early July."

4 CHAIRMAN SWEARINGEN: Thank you very much, Bob.

5 This progress report requires no action this morning.

6 You have heard that the next formal report of this
7 group will be available in the middle of the summer.

8 Thank you very much, Bob.

9 Since December of 1972, Carroll Bennett has chaired a
10 Committee on Emergency Preparedness, which has been a very
11 productive group - having transmitted some six reports already
12 to the Secretary of the Interior.

13 The latest request of the Secretary, as described
14 earlier by Jake Hamon, requires an accelerated effort by both
15 the main committee and its coordinating subcommittee.

16 I would now like to call on Carroll to give you a
17 progress report of the current activities of his committee.

18 Carroll Bennett.

19 STATEMENT OF CARROLL M. BENNETT, COMMITTEE ON EMER-
20 GENCY PREPAREDNESS

21 MR. BENNETT: Mr. Chairman, ladies and gentlemen,
22 please excuse my voice - what is left of it. I have quite a
23 cold. I hope you can hear me.

24 As Jake and John both have mentioned, this Committee
25 has submitted six reports, to date, to the Secretary of Interior.

1 It has 10,000 copies in circulation.

2 This new request that we just received, about a month
3 or so ago, has been put into operation.

4 We have reorganized our coordinating subcommittee,
5 by reason of Jim Cross, formerly of Sun, being transferred to
6 API. Ed DiCorcia of Exxon has replaced him - Ed being Assistant
7 Manager of the Supply Department for Exxon.

8 The subcommittee has also been enlarged, because we
9 felt that we could handle this report through the subcommittee
10 alone, without using additional staff groups as we have needed in
11 the past.

12 The group has met twice and agreed upon an outline
13 for the study, which will first examine projected supply and
14 demand patterns in the United States.

15 Then, by imposing hypothetical embargoes, the subcommittee
16 will estimate the volume, type, and location of petroleum
17 supplies required to respond to such an embargo.

18 The subcommittee will analyze the means for providing
19 the needed supplies, first through processing and security
20 storage of crude and, then, by supplemental products storage as
21 may be determined.

22 The subcommittee will develop cost estimates and
23 schedules for alternate security storage facilities and the
24 economics of various sources of fill for this storage, as well
25 as alternates for the financing and the management of the security

1 storage system.

2 Federal actions which might assist or retard the
3 creation of these emergency reserves will be discussed as well
4 as the relationship of this U. S. program to one recommended
5 by the international energy agreement among consuming nations.

6 Mr. DiCorcia assures me that the coordinating sub-
7 committee will have its report to our committee for approval as
8 soon as possible.

9 When approved, we will mail the report to all members
10 of the Council for comments. Since that will hopefully be
11 sometime in May and the next meeting of the Council is scheduled
12 for September, we will ask for your written approval to transmit
13 the report to the Secretary.

14 This would expedite the Secretary's receiving this
15 report as an official document of this Council and he has
16 urgently requested that we do this. That is the reason for the
17 unusual request of approving the report in the fashion that I
18 have outlined.

19 Mr. Chairman, that concludes my report.

20 CHAIRMAN SWEARINGEN: Thank you very much, Mr. Bennett.

21 Does anyone have any questions they would like to
22 put to Mr. Bennett.

23 (No Response.)

24 CHAIRMAN SWEARINGEN: If not, then I should like to
25 call on Mr. Jack Abernathy to present the report of the Budget

1 Committee.

2 STATEMENT OF JACK H. ABERNATHY, BUDGET COMMITTEE

3 MR. ABERNATHY: Thank you, Mr. Chairman.

4 Well, we have some good news and the bad news is not
5 too bad. First the good news.

6 It is a real pleasure for me to report that the finan-
7 cial state of the Council is in considerably better condition
8 than it was last September, in 1974, when we reported last or
9 when we discussed the budget last.

10 There has been a significant improvement in admini-
11 strative procedures and control of expenditures, requiring the
12 work of an awful lot of people.

13 As a result of these improvements, we expect to have,
14 hope to have, and I am afraid to say we may have a small surplus
15 at the end of this year, of approximately \$25,000 to \$30,000 -
16 that is at the end of this fiscal year. That is the good news.

17 Now for the news that is not too bad. Last year, your
18 Budget Committee recommended and you approved an operating
19 budget in the total of \$1,400,000.

20 This year, after a thorough review of all past and
21 projected Council expenditures, we recommend a \$1,350,000 budget
22 for fiscal year 1976.

23 This total includes an operating reserve fund of
24 \$115,000. The purpose of this reserve is to serve as a contin-
25 gency fund for possible additional study requests from the

1 Department of Interior, thereby minimizing the possibility of
2 a need for supplementary contributions when and if such requests
3 materialize in the future, as they certainly have in the past.

4 This operating reserve will be invested in general
5 interest bearing CD's and cannot be used without prior approval
6 of the Budget Committee, working with, of course, the Chairman -
7 subject to his approval.

8 Now, another matter the Committee addressed itself to
9 was the development of an equitable system, or a more equitable
10 system, anyway, for assessing membership contributions.

11 I am pleased to report that the Committee, or rather
12 the ad hoc committee, subcommittee of the Budget Committee, has
13 developed an approach to a system that, at the moment, appears
14 to be fair and equitable and results in individualized assess-
15 ments.

16 This system is nearly completed and should be nearly
17 ready for final study by the Committee and should be available
18 for computing fiscal year 1976 membership assessments.

19 The effectiveness of this system will, of course,
20 depend on the cooperation of the membership with Ken Belieu's
21 staff in providing the information required to calculate indivi-
22 dual assessments.

23 However, the problem is getting the data needed to
24 calculate it in such a form.

25 The details will be furnished to all members of this

1 Council, in writing, as soon as they are available.

2 Mr. Chairman, I now recommend and move that the
3 members of the Council approve a \$1,350,000 budget for Council
4 operations during fiscal year 1976.

5 Thank you.

6 CHAIRMAN SWEARINGEN: Are there any questions of
7 Mr. Abernathy?

8 (No response.)

9 CHAIRMAN SWEARINGEN: I would like to say to you that
10 Mr. Abernathy and his Budget Committee have performed yeoman
11 service here in the last three or four months.

12 They have had to undertake a fairly extensive reorgani-
13 zation of the Council's activities. A number of the Council's
14 procedures have not been looked at for quite a few years.

15 In particular, the whole question of financial support
16 of the Council, which as you know, comes from the members and
17 not from the Federal Government, is a matter which has not
18 received attention for a great many years.

19 I think you will be pleased with what Jack and his
20 Committee come out with, even though some of you may find your
21 contribution requirements go up while others go down.

22 Nonetheless, there is no way to make a change and
23 still remain the same.

24 In any case, Mr. Abernathy's group has gone all over
25 the program and expenses and has made this recommendation of

1 the budget for the coming fiscal year.

2 Are there any questions that anyone would like to
3 put to Mr. Abernathy?

4 (No response.)

5 CHAIRMAN SWEARINGEN: If not, you have heard the
6 motion that the budget be adopted for the fiscal year 1976,
7 those in favor?

8 (Chorus of ayes.)

9 CHAIRMAN SWEARINGEN: Opposed?

10 (No response.)

11 CHAIRMAN SWEARINGEN: It carries.

12 Now, ladies and gentlemen, I would like to present
13 to you or ask to stand, Mr. Omer C. Lunsford.

14 Omer, where are you?

15 Well, he was here earlier this morning. He was with
16 us last night. Before this group, I would like to acknowledge
17 the fine work that Omer did for me.

18 I came into the chairmanship of this Council last
19 September. In October, I found that I had no Executive Director
20 of the Council and I had to find somebody very promptly to give
21 me assistance.

22 Omer was a former employee of my own company and had
23 retired from our company twice. He agreed to come back for a
24 period of three months to help me straighten out the affairs in
25 the National Petroleum Council Office.

1 He did an absolutely yeoman service in that task.

2 MR. ABERNATHY: Mr. Chairman, as one who had the
3 privilege of working with him, let me say that I cannot tell
4 you how much I appreciated the quality of Mr. Lunsford and
5 what he did at a most difficult time.

6 I did have the opportunity of working closely with
7 him and I would say his services were invaluable to the Council.

8 CHAIRMAN SWEARINGEN: Thank you, Mr. Abernathy.

9 I am sorry Mr. Lunsford is not here.

10 Those of you who were there last evening may have had a
11 chance to shake Mr. Lunsford's hand.

12 Now, the results of Mr. Lunsford's work led me to
13 find a new, prominent Executive Director of the National Petroleum
14 Council, a gentleman that we have selected with the consent of
15 the nominating committee of this group.

16 He is well known, I think, to most of you and has
17 served in the Department of Defense. His last connection was
18 as Executive Director of the Natural Gas Supply Committee.

19 We are just delighted to have you on board as our
20 Executive Director.

21 I would like, now, to present Mr. Ken Belieu to you.

22

23

24

25

end-no

1 CHAIRMAN SWEARINGEN: Mr. Lunsford has just retired
2 from the room, but has now returned.

3 I would like for you all to acknowledge Mr. Omer
4 Lunsford.

5 (Applause.)

6 CHAIRMAN SWEARINGEN: Omer, I am sorry you were not
7 here to hear all of the nice things that were said about you,
8 but you can read about them in the record.

9 MR. LUNSFORD: Well, they weren't true.

10 (Laughter.)

11 CHAIRMAN SWEARINGEN: Now, Mr. Belieu.

12 REPORT OF THE EXECUTIVE DIRECTOR, KENNETH E. BELIEU

13 MR. BELIEU: I thought maybe Omer left the room
14 because he thought he might have to listen to me talk.

15 This is the first time, except last night, that I've
16 had a chance to meet all of you.

17 It is a privilege to be with you, although it reminds
18 me slightly of, since I've been here; somebody asked me last
19 night, how long have I been on board. I said, "Three months,
20 ten days, twelve hours and forty-five seconds."

21 Actually, it is three months, ten days, and forty-five
22 seconds now, today.

23 I am not going to keep you long because all of the
24 gentlemen, all of the illustrious gentlemen who have spoken
25 before, have covered the basic subjects and it will obviously be

1 a little higher than the Executive Director.

2 I cannot help thinking that you are entitled to
3 know something about me and my philosophy, and to see me a
4 little bit.

5 I am reminded of an incident that occurred several
6 years ago on an inspection trip when I was Assistant Secretary
7 of the Army. One of the first trips I took was to the ship-
8 yards.

9 For some reason, I was able to escape the normal
10 retina that hangs around the Assistant Secretary and wondered
11 into a machine shop in the ship-yard. I ran into a supervisor
12 by myself.

13 He was kind of harried, and he wanted to know who
14 I was and what I was doing. I said, "Well, I am an ex-Army
15 type and now I have the privilege of working with the Navy."

16 That sort of nullified him. He said, "Well, I am
17 getting busy for an inspection. They've got some sort of
18 Assistant Secretary around here by the name of LaBeau or Ballon
19 or something like that, so please don't bother me."

20 Incidentally, I guess he suddenly thought I might
21 be part of Ballon's group and he said, "Do you know the man?"

22 I said, "Yes, indeed. I do know him. In fact you
23 might say I work for him. I probably know him as well as
24 anyone."

25 Then he wanted to know what I thought of him. He

1 said, "I've seen his signature on a heck of a lot of papers.
2 He's caused me a lot of work. If I knew him so well, what
3 did I think of him."

4 I couldn't resist it. I said, "Well, I've asked
5 myself that question in the morning when I get up. There are
6 times when I think he is one of the most capable administrators
7 in the Government. There are many occasions when I am absolutely
8 convinced that he doesn't know a damn thing about his job."

9 He looked at me and said, "Well, you know, that is
10 kind of what my opinion is also."

11 (Laughter.)

12 MR. BELIEU: You are going to have your opportunity
13 to judge me. I hope it will be favorable.

14 I cannot resist, however, at this moment, with all
15 of you present, to say how much I appreciate the opportunity
16 that has been granted me to serve the NPC.

17 All of us together, I think, in some way, can help
18 our nation to develop and produce energy so vital to America
19 and the world.

20 With regard to the Council's administrative business,
21 procedures, this has been explained before. I shall not
22 attempt to be repetitive except to perhaps to re-emphasize
23 Mr. Abernathy's remarks. The current budget is in excellent
24 shape. Our banking, accounting and budgetary procedures are
25 under constant review in accordance with the excellent

1 administrative procedures of Omer Lunsford, who put it in
2 position before I got there.

3 Our FY 1976 budget is predicated on functional and
4 performance categories, and will continue to be subject to
5 stringent accountability practices to include regularity in
6 auditing and the attendant reports. In other words, all those
7 expected procedures essential and mandatory to properly run
8 a business.

9 I would be remiss also, if I did not take this
10 opportunity to thank our excellent staff. You, Mr. Chairman,
11 and the members of the National Petroleum Council, who have
12 literally wrapped their arms around me in the three months
13 and ten days that I have been here.

14 Our staff has jumped from 26 to 32. I found that you
15 and I can take great pride for their dedication and expertise.

16 Now, it is my firm belief that this Council could
17 continue to contribute to our nation's well being even more
18 than it has in the past, especially with it's broadened
19 membership.

20 While our responsibilities do not cover the entire
21 spread of energy matters, it is obvious that our energy require-
22 ments are related to the availability of petroleum and its
23 associate products and industries.

24 Mr. Zarb said that we needed maximum production of
25 domestic sources by domestic companies to avoid potential

1 embargo and price hostage.

2 Mr. Martin said we need to see within the framework
3 of acceptable technology whether or not we can help straighten
4 out the problem that the country finds itself in.

5 I believe we have a challenge in the NPC as great
6 as any of our nations faced in the past. Good Government,
7 especially one made up of a free society, cannot function
8 without dedicated citizens, from all walks of life and without
9 truthful facts.

10 I think it was Lincoln who said, "Let the people
11 know the facts, and the country will be safe." I think that
12 is our job, to provide such facts to the best of our ability.

13 I think America's energy needs are our business and
14 that available, usable energy is to our nation's economic
15 edifices as healthy flowing blood is to the living body. I
16 think our part in the mosaic, of the President and the Congress,
17 is they look at the needs for our world and our country, to
18 something that we should not be pessimistic about. We should
19 strive as we have done in the past.

20 No one gets paid, except the working staff in this
21 group. They are all volunteers. They are selected by the
22 Secretary of the Interior. Most of them donate their time,
23 more than they should perhaps, at least as far as their own
24 personal lives are concerned.

25 My experience to date, as short though it is, with

1 the members of the NPC, the petroleum industry and the free
2 trade union business, and the free market system, has convinced
3 me that we have the know-it-all and the where-it-all to take care
4 of the situation in the country, which we will.

5 I know that those who believe in good Government and
6 the integrity of corporate individual participation, can do
7 anything, if they wish, because there are more here in this
8 room, than there was in the room that wrote the Constitution,
9 when the Constitution was written.

10 I think there are going to be difficult years ahead,
11 especially in the next couple of years.

12 I think with the spirit of dedication that I have
13 come to experience, the members of this industry, both in the
14 natural gas supply committee and before when I had the
15 privilege of handling the Naval Reserve System many years
16 back, those of you whom I have met and many of you new members
17 might know that we can take the high road. We don't have to
18 doubt at all the challenge we have. I am delighted to be your
19 Executive Director. It is a pleasure to work with you and it
20 is an honor to be associated in the same cause.

21 Thank you very much.

22 (Applause.)

23 CHAIRMAN SWEARINGEN: Well, we are delighted you are
24 helping us out, too, Ken.

25 Earlier, a draft of the proposed revision of the

1 By-Laws were circulated to the membership. We had hoped that
2 we might be able to take up the matter this morning. We have
3 received a number of comments suggesting changes of some kind
4 or another in the By-Laws and I believe that we should under-
5 take to review these comments and suggestions in detail and
6 we circulate new drafts to the membership.

7 Inasmuch as we have been operating for nearly
8 twenty years, I guess, under these By-Laws, I think the
9 existing By-Laws, I think we can be continue to do so for
10 another six months.

11 As a consequence, we will postpone any consideration
12 of these provisions by the Council, itself, until the September
13 meeting.

14 Now, this brings us to the end of our Agenda for
15 this morning.

16 Is there any other business, any Councilman would
17 like to raise?

18 (No response.)

19 CHAIRMAN SWEARINGEN: If not --

20 MR. FOX: Mr. Chairman, I would like to speak for
21 about five minutes, if this is the appropriate time?

22 CHAIRMAN SWEARINGEN: Yes.

23 Please come to the podium if you would like.

24 MR. FOX: For the record, I am Stark Fox, Independent
25 Oil and Gas Producers from California.

1 I have been a member of this Council for just one
2 month short of 23 years.

3 The question probably arises in some of your minds,
4 "How come? How come that's only a tenure?" Well, it is because
5 of the job that I have held during those years.

6 That means that I have not really been a member. I
7 am an ex-officio member, a sort of a bastard member, and those
8 of you who know me will agree that that fits me pretty well.

9 (Laughter.)

10 MR. FOX: When I learned that the Council had been
11 expanded to include, well, to lump you all together, outsiders,
12 I thought, well, I wrote a speech about it.

13 In my speech I was going to say that while I had
14 nothing against consumers, I am one, and while I have nothing
15 against women voters, I am married to one, and while I have
16 nothing against the academic world, because if it had not
17 existed when I was a young man, I could not hardly have gotten
18 the education that I got, hardly.

19 (Laughter.)

20 MR. FOX: So, I have nothing against these people,
21 but I did not think that these people could contribute or add
22 to the work of the National Petroleum Council.

23 Now, you have heard all of the reports that are in
24 preparation and that have been made. I am still not sure that
25 those who are not actively, and intimately and professionally

1 in the oil business, can make too much of a contribution.

2 "The purpose of the Council --" it says in this
3 little booklet I picked up at the office yesterday, "The
4 purpose of the Council is solely to advise and inform and
5 make recommendations to the Secretary of the Interior on any
6 matter relating to petroleum or the petroleum industry."

7 I still question, under those circumstances.

8 Oh, well, the most recent reports pursuant to that
9 Charter, if you will, the most recent reports are the avail-
10 ability of materials, manpower and equipment for the explor-
11 ation, drilling and production of oil.

12 Perhaps, the academic world could contribute something
13 to a study of that kind by creating some kind of an economic
14 model. I don't know. Another one, emergency requirements
15 for interruption of petroleum imports into the United States.
16 Another one, ocean petroleum resources.

17 Again, I am not sure that the new members, and I
18 trust that none of them take this personally, I am not sure
19 that the new members can make much of a contribution.

20 I was about to say that in this speech that I had
21 written.

22 (Laughter.)

23 MR. FOX: But, I went to the office of the National
24 Petroleum Council yesterday, spent the morning there with our
25 new Executive Director and with Marshall Nickols, and I sort

1 of announced, a little arrogantly I suppose, that I was a man
2 who had the courage of my convictions.

3 I propose to voice my convictions here today. I
4 have spent the morning over at the Council offices. While I
5 was there, I was convinced that maybe my convictions needed a
6 little bit of watering down.

7 So, I decided to tear up the speech that I had
8 prepared and make this one, because, while I was in conference
9 if you will, with the NPC staff people, it was pointed out to
10 me that perhaps these new people, outsiders, could contribute
11 something. It occurred to me that perhaps they could con-
12 tribute something that they don't even realize they are in a
13 position to contribute.

14 There is no use in my telling you that the image,
15 which is a word I detest, the image of the oil industry with
16 the public is not exactly favorable. As a matter of fact, I
17 have been around for quite a few years now, and I have never
18 known as much hostility toward the oil industry as now exists.

19 Hostility has been expressed by outside interest
20 groups, all of whom are convinced they are acting in the public
21 interest. Nevertheless, outside interest groups have generated
22 much of the hostility.

23 Now, some of those outside interest groups are
24 members of the National Petroleum Council.

25 It just could be that as members and if they

1 participate in the work of the Council, they will find that
2 oilmen are a pretty decent lot. Personally, I think they are
3 the decentest lot of any group of men in the world. They
4 are a pretty decent lot. They are doing their best to do the
5 best job that they can.

6 As the Materials Director of the PAD once said during
7 the War, the World War -- Korean War, he was visited by -- he
8 was a country boy actually, an Arkansaser, he was visited by
9 the then "Brass" of the industry, trying to get materials
10 from him.

11 He was impressed, he said, until he remembered one
12 day, by golly, that those men who came to visit him, with their
13 top jobs in the industry, no question and deservedly so, those
14 men came to visit him, were just exactly as he was. When they
15 got out of bed in the morning, they pulled their pants on,
16 one leg at a time.

17 Now, I hope that these outside people, by learning
18 something about the kind of people that make up the industry
19 and the kind of work that this Council does, I hope that these
20 outsiders will help to ameliorate at least, if certainly not
21 eliminate, will have to dampen some of the vicious attacks
22 that the industry has been undergoing for some length of time.

23 That brings me back pretty rapidly to a conclusion.
24 Right after World War II, the API put on a public relations
25 program, the theme of which was "Those Who Know You Best, Like

1 You Best."

2 I hope that turns out to be true in this case. I
3 hope that as the new members, members in the new categories,
4 learn a little about this industry, they will learn to like
5 it a lot better than most people do.

6 Mr. Chairman, I have been a member of this Council
7 for 23 years. I had pretty well made up my mind it was time
8 to hang up my gloves, put the spikes back in the shoebox. I
9 still think that is true.

10 I mentioned World War II a minute ago. I did a
11 hitch in the Navy in World War II and the Navy, in its wisdom,
12 sent me out to the South Pacific. I guess it was wise.

13 I went out to the South Pacific and we won the War.

14 (Laughter.)

15 MR. FOX: I don't know that we have won one since.

16 (Laughter.)

17 MR. FOX: In order to get to the South Pacific in
18 those days, you went through the coast of the Hawaiian Islands.
19 While I was in the Hawaiian Islands, for about three months
20 out of 18 months overseas, I learned a little bit of the
21 Hawaiian language.

22 One word that I learned was that "Aloha" means "Hello",
23 and it means "Good-by".

24 I will leave it to the judgment of others when I
25 say "Aloha". It means "Hello" or "Goodby."

1 Aloha.

2 (Applause.)

3 CHAIRMAN SWEARINGEN: Thank you very much, Mr. Fox.

4 MR. FOX: Thank you, Mr. Chairman.

5 CHAIRMAN SWEARINGEN: I would just like to add, by
6 way of elaboration on your remarks, however, first, the Council
7 is advisory to the Secretary of the Interior. It's member-
8 ship is appointed by the Secretary of the Interior.

9 The members who accept appointment, I must assume,
10 feel that they can contribute something to the activities of
11 the Council, otherwise they would not accept membership.

12 There is a law governing the makeup of all
13 Advisory Committees to the Government. The National Petroleum
14 Council is so considered, and its membership is reflective of
15 the requirements of the law.

16 I, for my part, would like to welcome all of the new
17 members who have been added to the Council, and say to you,
18 I hope we can learn some things from you as well as you learn
19 things from us, as we proceed about the Council business.

20 Is there anything more to come before the Council
21 for action this morning?

22 (No response.)

23 CHAIRMAN SWEARINGEN: Well, if not, I will remind
24 you that the next scheduled meeting of the Council has been
25 set for Thursday, the 11th of September.

1 I hope you will be able to attend.

2 The offices and Committee Chairman of Council will
3 be available immediately following the meeting in the front
4 of the room here to answer any questions you may have.

5 If there are no further business, the 72nd Meeting
6 of the National Petroleum Council is hereby adjourned.

7 Thank you for coming.

8 (Whereupon at 11:00 o'clock a.m., the Council
9 was adjourned, to reconvene on September 11, 1975.)
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11 NO/eh
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CERTIFICATE OF REPORTER

This is to certify that the attached proceedings
before the Department of the Interior in the matter of:

NAME OF PROCEEDINGS: Meeting of the National Petroleum
Council

PLACE OF HEARING: 18th and C Streets, N. W.
Washington, D. C.

DATE OF HEARING: Tuesday, March 18, 1975
Commencing at 9:00 o'clock a.m.

were held as herein appears, and that this is the original
transcript thereof for the files of the department.

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